

Monthly commentary / 30.06.2020
Vontobel Asset Management

Vontobel Fund - Global Convertible Bond

Approved for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, PT, SG (Professional Investors only)

Market developments

June was a largely robust month for risky assets to close a strong second quarter. Equities posted gains across the board. Credit spreads tightened in both developed and emerging markets. In the Eurozone, spreads in peripheral countries were well supported, specifically those in Italy. Treasury yields fell slightly. Commodity prices rose. Safe-haven assets, such as gold, were in demand, as the medical situation remained worrisome, particularly in the US, while Australia, China, Iran and several European countries saw renewed Covid-19 infection outbreaks. Equity-implied volatility, as measured by the VIX, was on the rise.

In the US, the index of economic surprises reached an all-time high, reflecting that effective data were consistently higher than low expectations. This implies that the economic damage caused by lockdown could be less severe than feared. However, the deteriorating health situation in several southern US states probably dictated investor preferences. So US assets slightly lagged overall, with equities and high-yield bonds running behind their European and emerging market equivalents, and the dollar remaining soft.

Published global economic data, such as retail sales and non-farm payrolls, were surprisingly robust, while the absolute level of economic activity remains under stress. The latest IMF report shows a downward revision by just under 2% in global growth for 2020. GDP is expected to shrink by -4.9% this year, of which -8% account for developed markets.

Markets received continued support from expansive fiscal policy combined with significant liquidity injections by a large number of central banks. Recently, the Bank of England joined, expanding its balance sheet by 100 billion British pound. The US central bank reiterated to keep the Fed Fund rate near zero and their bond purchases at least at the current level, while setting a minimum purchase limit, albeit with an option to increase it if need be. The European Central Bank announced an additional Pandemic Emergency Purchase Program worth 750 billion euro, up for debate at the next EU meeting in mid-July, while Germany and Spain added sizable new fiscal programs.

Portfolio review

In June, we reduced our exposure to Asian convertible bonds by selling low-delta holdings. We invested the proceeds in European and US convertible bonds. Through these transactions, we increased the average delta of the portfolio.

Performance analysis

In June, the fund outperformed its benchmark. The strongest contributor was our large underweight in European convertible bonds, some of which suffered strongly. The positive contribution from our exposure to Japanese convertible bonds offset the negative contribution from our exposure to US convertible bonds.

Outlook

With central banks' massive intervention, interest rates are likely to stay at their effective lower bound for longer. With this, global economic activity may improve further, supporting both equity and credit markets, of which convertible bonds would benefit in turn. We stay in the camp of those expecting a swoosh-shape recovery unless a vaccine against the Covid-19 disease is broadly available by the end of this year already.

Performance (in %)

Net returns		Rolling 12-month net returns				
EUR	Fund	Index	Start date	End date	Fund	Index
MTD	0.6	-0.1	01.07.2019	30.06.2020	-0.6	-2.3
YTD	-3.1	-3.2	01.07.2018	28.06.2019	-3.8	-1.3
2019	5.4	4.3	01.07.2017	29.06.2018	-3.0	-2.9
3 years p.a.	-2.5	-2.2	01.07.2016	30.06.2017	3.9	5.6
5 years p.a.	-1.3	-0.7	01.07.2015	30.06.2016	-2.7	-2.5
10 years p.a.	2.3	3.4	Index: Thomson Reuters Convertible Global Focus Investment			
Since launch p.a.	3.0	4.6	Grade (hedged in EUR)			
Launch Date	14.04.2009	Share class: I ISIN: LU0414968437				

Past performance is not a reliable indicator of current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

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Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

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